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June 5, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Auditor-Controller

SUBJECT: **SOUTH BAY CHILDREN'S HEALTH CENTER – A DEPARTMENT OF
MENTAL HEALTH SERVICE PROVIDER**

We completed a fiscal and program review of South Bay Children's Health Center (SBCHC or Agency) to determine the Agency's compliance with the Department of Mental Health (DMH) contract to provide mental health services.

Background

DMH contracts with SBCHC, a private non-profit community-based organization that provides services to clients in Service Planning Area 8. Services include interviewing program clients, assessing their mental health needs, and developing and implementing a treatment plan. SBCHC's offices are located in the Fourth District.

DMH paid SBCHC on a cost reimbursement basis between \$2.08 and \$4.96 per minute of staff time (\$124.80 to \$297.60 per hour) for services. SBCHC's maximum contract amount was \$793,500 for Fiscal Year 2007-08.

Purpose/Methodology

The purpose of our review was to determine whether SBCHC complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff.

Results of Review

SBCHC staff assigned to the County contract possessed the required qualifications to provide services to participants. In addition, the Assessments, Client Plans and Progress Notes were completed in accordance with the County contract.

However, the Agency did not comply with all the provisions of the contract. Specifically, SBCHC did not have a written Cost Allocation Plan and did not maintain documentation to support their allocation of indirect costs. In addition, SBCHC can strengthen its internal controls over cash by ensuring that the preparer and reviewer sign and date bank reconciliations and supervisors review and approve timecards.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with SBCHC and DMH on January 27, 2009. In their attached response, the Agency indicates agreement with our findings and the actions they have taken to implement the recommendations. DMH will follow up with the Agency to ensure the recommendations are implemented.

We thank SBCHC management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
South Bay Children's Health Center
Christina Harris, Executive Director
Lisa Montes, President, Board of Directors
Public Information Office
Audit Committee

**CONTRACT COMPLIANCE REVIEW
SOUTH BAY CHILDREN'S HEALTH CENTER
FISCAL YEAR 2007-08**

BILLED SERVICES

Objective

Determine whether South Bay Children's Health Center (SBCHC or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 35 billings totaling 3,521 minutes from 42,272 service minutes of approved Medi-Cal billings for January and February 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,521 minutes represent services provided to 20 program participants.

Results

SBCHC maintained documentation to support the services outlined in the County contract. In addition, the Agency completed the Client Care Plans, Assessments and Progress Notes in accordance with program requirements.

Recommendation

None.

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require staffing ratios for this particular program.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether SBCHC's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 15 of the 24 SBCHC treatment staff who provided services to DMH clients during January and February 2008.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash and other liquid assets.

Verification

We interviewed SBCHC's management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for February 2008.

Results

SBCHC properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations. However, the preparer and reviewer did not sign and date the bank reconciliation.

Recommendation

1. **SBCHC management ensure that the preparer and reviewer sign and date bank reconciliations.**

COST ALLOCATION PLAN**Objective**

Determine whether SBCHC's Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed SBCHC's Cost Allocation Plan, interviewed management and reviewed the Agency's accounting records for Fiscal Year (FY) 2006-07.

Results

SBCHC did not have a written Cost Allocation Plan and did not maintain documentation to support their allocation of indirect costs. SBCHC management indicated that the manager that calculated their allocation of indirect costs in previous years was no longer employed by the Agency, and they applied the same rate used in the previous year. Subsequent to our review, the Agency developed a written Cost Allocation Plan.

Recommendations

SBCHC management:

- 2. Apply FY 2007-08 indirect cost rates to FY 2006-07 and repay DMH for any over billed amounts.**
- 3. Maintain documentation to support the allocation of indirect costs between programs.**

EXPENDITURES**Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed to DMH.

Verification

We reviewed financial records and documentation for 15 non-payroll expenditures transactions totaling \$11,129 between July 2007 and February 2008.

Results

SBCHC maintained adequate documentation to support the non-payroll expenditures charged to the DMH program.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether fixed asset depreciation costs charged to DMH were allowable under the County contract, properly documented and accurately billed.

We did not perform test work in this area as the Agency did not charge DMH for material fixed asset expenditures during FY 2006-07.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program and whether personnel files were maintained as required.

Verification

We traced the payroll expenditures for 10 employees totaling \$19,281 to the payroll records and time reports for the pay period ending February 26, 2008. We also reviewed the employees' personnel files and interviewed nine employees.

Results

SBCHC's direct program salaries were appropriately charged to the DMH Program. In addition, the Agency maintained personnel files as required. However, a supervisor did not review or approve the ten staff timecards in our sample.

Recommendation

4. SBCHC management ensure that a supervisor reviews and approves timecards.

COST REPORT**Objective**

Determine whether SBCHC's FY 2006-07 Cost Report reconciled to the Agency's financial records.

Verification

We traced the Agency's FY 2006-07 Cost Report to the Agency's general ledger. In addition, we reviewed the general ledger for any unallowable costs (e.g., interest penalties, etc.).

Results

The total Agency expenditures listed on SBCHC's Cost Report reconciled to the Agency's general ledger.

Recommendation

None.

Attachment



And host of the South Bay Youth Project



Clinics
Dental
Child Guidance

Contributors

Vasek and Anna Maria Polak
Foundation



Sandpipers

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April 16, 2009

Wendy L. Watanabe, Auditor-Controller
County of Los Angeles, Department of Auditor-Controller
Kenneth Hahn All of Administration
500 West Temple Street, Room 525
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Subject: Response to Contract Compliance Review

Dear Wendy L. Watanabe,

Based on the contract compliance review of our Agency's DMH Program, corrective actions have been taken to address the recommendations made. Following are the corrective actions taken and the implementation dates.


Bank reconciliations are now being signed and dated by both preparer and reviewer. The implementation of this action began with the January 2009 bank reconciliations.

A written Cost Allocation Plan was developed and implemented on October 14, 2008. The plan will be used to allocate indirect costs to DMH Cost Report for the Fiscal Years 2006-2007 and 2007-2008. The agency intends to have this completed by May 15, 2009. Should there be any over billed amounts, DMH will be repaid. In addition, the agency will maintain documentation to support the allocation of indirect costs between programs when the allocation is made.

Timecards are now reviewed and approved by supervisors. This policy was implemented on May 13, 2008.

We appreciate the feedback in assisting our Agency to make positive changes in contract compliance and to strengthen internal controls.

Sincerely,


Christina J. (Tina) Harris
Executive Director

A NON PROFIT-TAX EXEMPT
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